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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 001920

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DEPT OF ENERGY PASS TO A/S KHARBERT, DAS AHEGBURG,  
MWILLIAMSON, GPERSON, AND JHART  
EB/ESC FOR SGALLOGLY AND MMCMANUS

E.O. 12958: DECL: 09/17/2017

TAGS: [EPET](#) [ENRG](#) [ECON](#) [SA](#)

SUBJECT: CONOCO PHILIPS INSIDER DEBUNKS MEED ON  
CANCELLATION OF YANBU REFINERY

REF: RIYADH 525

Classified By: Economic Counselor Robert Murphy for reasons  
1.4 (b) (c) and (d).

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Summary  
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11. (C) A respected ConocoPhillips (COP) insider and consultant has told us that press reports of the cancellation of the planned 400,000 barrel a day joint-venture Saudi Aramco/COP refinery are not true. While the project economics are indeed daunting in this era of stretched petroleum supply chains, he was emphatic that, "Saudi Aramco and COP have not made that policy decision."

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MEED Claims COP Yanbu Refinery Being Cancelled;  
COP Consultant Dis-Agrees with MEED Assessment  
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12. (C) On 15 September, Saudi Aramco re-printed a Middle East Economic Digest (MEED) article in its internal news report, in which MEED claimed that Aramco and COP had cancelled the planned Yanbu export refinery (Ref A), along with the Fujairah refinery in the United Arab Emirates, due to spiraling project costs. Brooks Buxton, a former Conoco country manager in the KSA, now retired and a consultant for the now-merged COP, dis-agreed, stating no such policy decision has been made. "Saudi Aramco and COP have not made that policy decision yet," Buxton stated emphatically. (Note: COP regional management is traveling and has not been reach-able for comment, but we are confident Buxton enjoys their full confidence and speaks for them on this issue.) Buxton also noted that MEED often had inaccuracies in their articles.

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New Budget Underscores Yanbu Refinery  
Project Economics Will be Challenging  
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13. (C) Nonetheless, both Buxton and COP regional President Nick Spencer have noted in earlier conversations with us that in this era of spiraling project price figures, the economics for the Yanbu refinery are challenging. It will take

considerably more negotiating to narrow the gap between COP and Saudi Aramco management, and conclude a successful agreement. Buxton (strictly protect) clarified the project economics for us: previous costs for the refinery had been estimated in the \$10 USD billion range, which would have provided COP a 8.5 to 9 percent return on investment (ROI). Recent cost revisions indicated the new budget would likely be in the \$13-\$14 USD billion range, bringing COP's ROI down to 6.5 to 7 percent, well below what would be required for COP's board to agree to participate. Buxton indicated COP would typically demand an ROI of 10 percent or more to commit to a major project. Buxton has a long history of working in the KSA, and he indicated COP would take a soft approach to working with Saudi Aramco to bring them on board to the new budget realities. They would first "plant the seed," and let both Saudi Aramco and MinPet mull over for a while both the new budget figures and COP's need for market-rate returns. The SAG's demand for an initial public offering of up to 30 percent of the project's value has also a significant source of concern for COP.

14. (C) Buxton noted that, contrary to the portrayal in the MEED article, Saudi Aramco does not hold the final decision-making authority on the Yanbu project. He explained any decision to move ahead with the project would be made by the Ministry of Petroleum, albeit with significant input from Saudi Aramco. In turn, MinPet would not act without appropriate authorization from the inter-ministerial Supreme Petroleum Council and the Council of Ministers.

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Comment  
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15. (C) While no final decision has been made on the Yanbu refinery, both the MEED article and rumblings among mid-level Aramco management would seem to indicate a serious degree of concern with escalating project costs endangering the project's viability. COP appears committed to continue working on the Yanbu for now, but will require greater flexibility from Saudi Aramco and MinPet than hitherto demonstrated, for all sides to meet their financial goals. Nonetheless, COP does hold valuable cards, in the form of proprietary technology for the refining of heavy oil, technology which would bring unique and significant value to the KSA's portfolio of increasingly heavy crude. Post will continue to monitor this project closely with COP management.

FRAKER